BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION

2) capitalization of AFUDC at the cost of debt on all construction;

3) inclusion of all plant under construction in the rate base; and

4) application of the amount of AFUDC capitalized as a revenue reduction requirement for the period it is capitalized.[4]

Since the adoption of Part 32 the Commission has consistently demonstrated its support for regulatory accounting adherence to GAAP. The Commission's proposal corrects the current inconsistency between regulatory application and GAAP, and thus furthers the Commission's policy of implementing GAAP to the extent possible consistent with regulatory needs.

The current regulatory application of AFUDC differs from GAAP in two important respects. First, for regulatory purposes

rates applicable to borrowings outstanding during the period".[6] Thus, GAAP requires using a company's specific cost of debt to compute AFUDC.

SWBT supports the Commission's efforts to reach a balanced approach with the various methodologies of dealing with AFUDC for accounting and ratemaking treatment. The primary component of the proposed method over the current method results from the elimination of the short term/long term dichotomy for plant under construction. The proposed method accomplishes the following:

1. Interest would be capitalized for all plant under construction, creating a capitalization methodology that is fully consistent with GAAP.

2. Interest capitalized during construction will be depreciated for all construction where as the current method only allows depreciation on interest capitalized on long term construction.

3. All plant under construction will earn a return on investment, whereas currently only short term construction earns a return on investment. The Commission's proposal thus allows the regulated entity to earn a rate of return on the total investment.

4. The proposed Revenue Requirement Offset Method requires the amount of the AFUDC capitalized to be included as income for ratemaking purposes (above the line) and thus offsets the revenue requirement generated by the above three points. The proposed method serves to offset the revenue requirement determination for the development of rates for services. This is necessary because all plant under construction will be included in the rate base.

As a result of the above points, the Commission's overall AFUDC treatment is in the best interest of all parties.
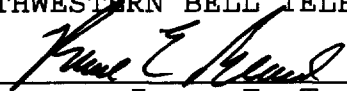
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[6]SFAS 34, para. 13.

CONCLUSION

The Commission's proposal further eliminates inconsistencies between regulatory application and GAAP, where appropriate. Therefore, SWBT supports the Commission's proposed changes in the accounting and ratemaking treatment for AFUDC.

Respectfully submitted,

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May 13, 1993

CERTIFICATE OF SERVICE

       I, Liz Jensen, hereby certify that the foregoing
Comments of Southwestern Bell Telephone Company in CC Docket
No. 93-50, have been served this 13th day of May, 1993 to
the Parties of Record.

Liz Jensen

Liz Jensen

May 13, 1993

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